

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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E.O.11652: N/A

TAGS: ECON, SP

SUBJECT: GOVERNMENT DECREES EXPANSIONARY MEASURES

REF: MADRID 5891

1. GOS HAS ISSUED TWO DECREE LAWS EFFECTIVE
AUGUST 4 AUTHORIZING GOVERNMENT EXPENDITURES, OFFICIAL
CREDITS AND CORPORATE TAX REDUCTIONS TO IMPLEMENT
ECONOMIC MEASURES AGREED TO AT JULY 30 COUNCIL OF
MINISTERS MEETING IN LA CORUNA, NOT YET DECREED, BUT
EXPECTED SOON, IS AN INCREASE IN THE PRICE OF DOMESTICALLY
PRODUCED FERTILIZERS TO OFFSET THE INCREASE COST OF
MOROCCAN PHOSPHATES, TOGETHER WITH DIRECT SUBSIDIES
TO FARMERS. THE MEASURES ARE EXPANSIONARY AND WILL
ADD TO THE GOVERNMENTS GROQING BUDGETARY DEFICIT.

2. THE FIRST DECREE AUTHORIZES GOVERNMENT EXPENDITURES
OUTSIDE THE NORMAL BUDGET OF UP TO 24,000 MILLION PESETAS
(ABOUT \$350 MILLION) FOR URGENT MEASURES IN CONNECTION
WITH UNEMPLOYMENT, PRICES, AGRICULTURE, AND PRODUCTIVE
INVESTMENT. EXPENDITURES, TO BE FINANCED BY BANK OF
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SPAIN CREDIT, WILL BE TO SUBSIDIZE THE PRICES OF BASIC

FOOD COMMODITIES, TO SUBSIDIZE IRRIGATION AND RURAL IMPROVEMENT PROJECTS, TO IMPROVE MARKETING AND FOOD INSPECTION AND TO CREATE NEW INDUSTRIES IN AREAS OF HIGH UNEMPLOYMENT OR EMIGRATION. IN ADDITION THE DECREE AUTHORIZES CORPORATE TAX EXEMPTION ON 10 PERCENT OF INVESTMENTS MADE IN PREFERENTIAL DEVELOPMENT REGIONS, INDUSTRIAL PARKS AND IN MINING IRON AND STEEL. FOOD AND AGRICULTURE, AND SHIPBUILDING INDUSTRIES.

3. THE SECOND DECREE PROVIDES FOR THE CONSTRUCTION OF PUBLIC HOUSING WITH CREDITS FROM THE NATIONAL HOUSING INSTITUTE AND FROM THE OFFICIAL MORTGAGE BANK (BANCO HIPOTECARIO). THE NATIONAL HOUSING INSTITUTE WILL OBTAIN ITS FUNDS FROM OFFICIAL AND PRIVATE BANKS AND FROM SAVINGS INSTITUTIONS, APPLYING PART OF ITS BUDGET FOR AMORTIZATION PAYMENTS, WHILE THE MORTGAGE BANK MAY ISSUE BONDS TO MOBILIZE CAPITAL. IN ADDITION, PRIVATE INDIVIDUALS AND FIRMS ARE TO BE GRANTED TAX EXEMPTIONS ON INVESTMENTS IN PUBLIC HOUSING. NO OVERALL SUM FOR HOUSING IS MENTIONED IN THE DECREE, BUT PUBLIC HOUSING PLANS CALL FOR CONSTRUCTION OF 450,000 DWELLINGS OVER 3 YEARS WITH ESTIMATED COST OF \$118 MILLION DURING FIRST YEAR.

4. SOME OF THE MEASURES ARE IN ATTEMPT TO STEM THE INCREASE IN PRICES OF BASIC FOOD COMMODITIES WHICH WEIGH HEAVILY IN THE SPANISH COSTS OF LIVING INDEX, BUT THE MEASURES RESULT IN INCREASED GOVERNMENT EXPENDITURES AND REDUCED PRESSURE. STABLER

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